# Malawi

## Debt summary

As a result of a highly unsustainable debt burden, Malawi qualified as one of 38 **Heavily Indebted Poor Countries** (HIPC) in 2000, completing the IMF initiative in 2006. From the 1970s, large amounts were loaned to Malawi by International Financial Institutions (IFIs), western banks, and governments, leading to a huge debt burden with over US$100 million leaving Malawi in repayments each year over the 1980s and 1990s. With such unsustainably high debt, HIPC was welcomed as a way out, but strict conditions delayed debt relief by six years. During this time the country had one of its worst famines with over 1000 people dying from starvation, whilst over $440 million was paid to the West in debt repayments. Eventually Malawi was approved for HIPC completion, saving an estimated US$110 million each year which could then be spent on improving facilities including education, healthcare and agriculture. Since 2006 Malawi's debt has increased once more and is now equal to over 50% of its GDP.

## Conditionalities and debt cancellation

IFI advice had significant implications for Malawi. Structural Adjustment Plans were often attached to loans throughout the 1980's and led to liberalisation and privatisation, particularly harmful to poorer members of the population. Qualifying for debt relief in 2000, the IMF and World Bank had a great influence on Malawian policy. To encourage economic growth, the country were advised to minimise their intervention in the maize market and sell off their grain reserve which the IMF considered to be too large to justify. When two years of low harvests followed, food was scarce and grain prices shot up, leaving Malawians without a safety net when the country faced famine in 2001. The IMF have since admitted the advice had not been constructive in light of the results but that it "was the correct decision based on the information available at the time".

The negative impact of IFI advice has not ended there. After years of refusing the IMF's conditions to devalue the country's currency, the new Prime Minister, Joyce Banda, entered office with a large budget deficit due to frozen donor funds. She followed IMF recommendations, securing a US$157 million loan in May 2012 by devaluing the Malawian currency, the Kwacha, the value of which quickly fell by over a third. Panic buying and high inflation caused financial hardship, disproportionately affecting the poorest members of the population. The devaluation has also led to the countries debt stock shooting up to over 50% of GDP.

These cases illustrate the lack of responsibility and foresight IFIs consider. Malawi shows the great need for IFIs to accept responsibility to the people who are affected by their advice, and highlights the disastrous outcomes which appear when they do not.

## Impact of debt relief

The outcomes of debt relief in Malawi are contested. In 2007, Malawi was beginning to be seen as a great success. Farms were beginning to produce and even export surplus grain. The money which had previously spent on servicing debts, was instead directed to social spending. This allowed improvements in healthcare, education and agriculture. However, the prediction for 2013 is not so positive. Malawi is once again at risk of food insecurity as a result of a combination of erratic weather, reduced crop production, high retail prices for maize and currency devaluation.

The debt relief, whilst a positive step, has not prevented a return to high debt levels. In 2010 Malawi was assessed as being at a moderate risk of defaulting on their loans but with the large currency devaluation, the situation has been more severe than predicted and the debt burden seems unsustainable once more.

## Factfile

Population
16.32 million

Life expectancy
52 years

74.8%
Total adult literacy rate

92 out of 1000
children die before the age of 5

2
qualified Doctors per
100,000
people

53%
of the population live below the poverty line

Human Development Index rated
171
out of 187 countries

11%
of adult population living with HIV/AIDS

To learn more about the situation in Malawi and its links with Scotland visit:
www.scotland-malawipartnership.org/